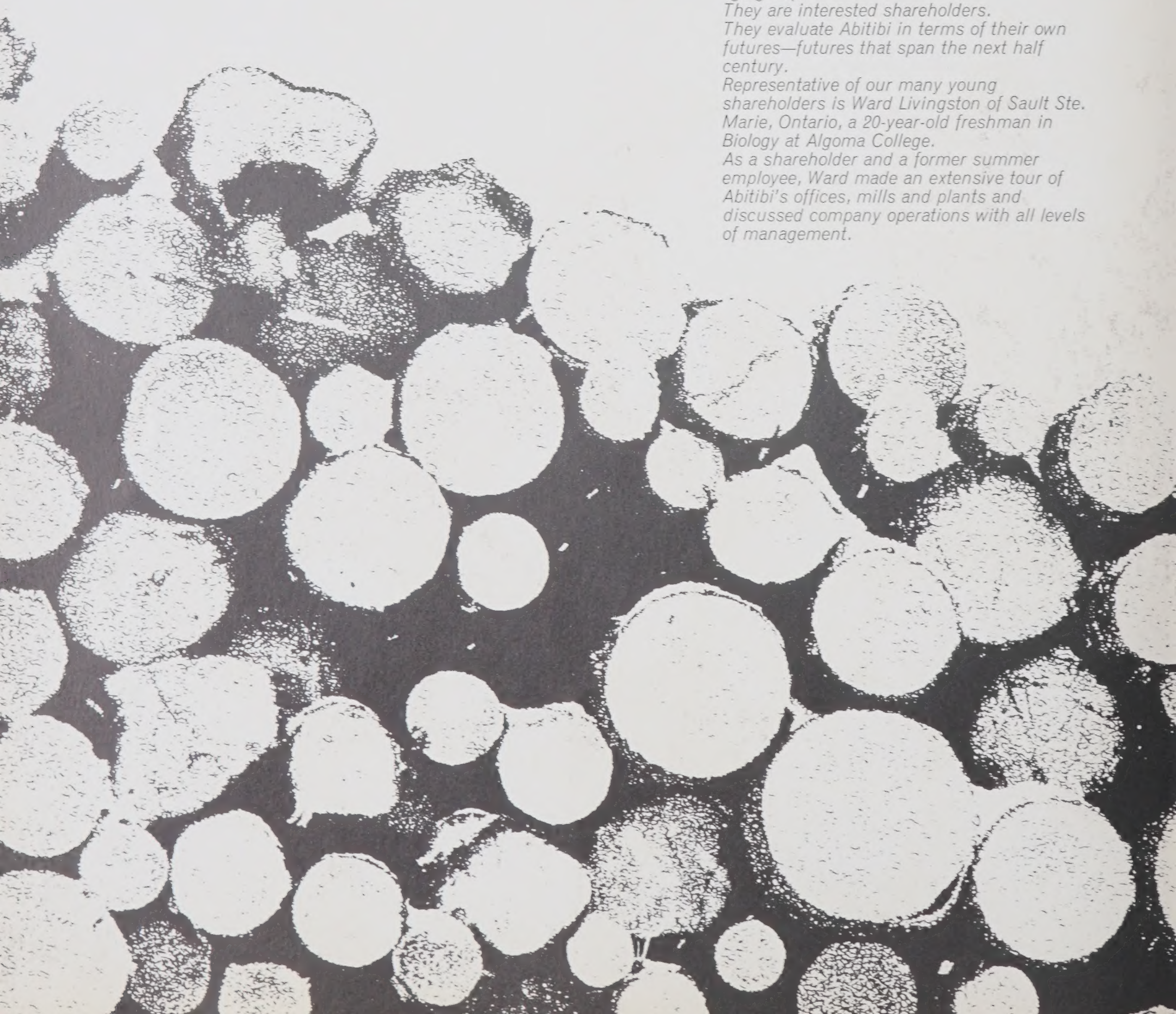
ABITIBI

ANNUAL REPORT 1968

Featured on the cover are fresh cut pulpwood logs for direct delivery by truck or rail to the mill destination.

A shareholder looks at the company—the theme of this annual report.
Half the population of the continent is under 25 years of age.
Many Abitibi shareholders are in this age group.
They are interested shareholders.
They evaluate Abitibi in terms of their own futures—futures that span the next half century.
Representative of our many young shareholders is Ward Livingston of Sault Ste. Marie, Ontario, a 20-year-old freshman in Biology at Algoma College.
As a shareholder and a former summer employee, Ward made an extensive tour of Abitibi's offices, mills and plants and discussed company operations with all levels of management.



Annual Report for the year ended December 31, 1968

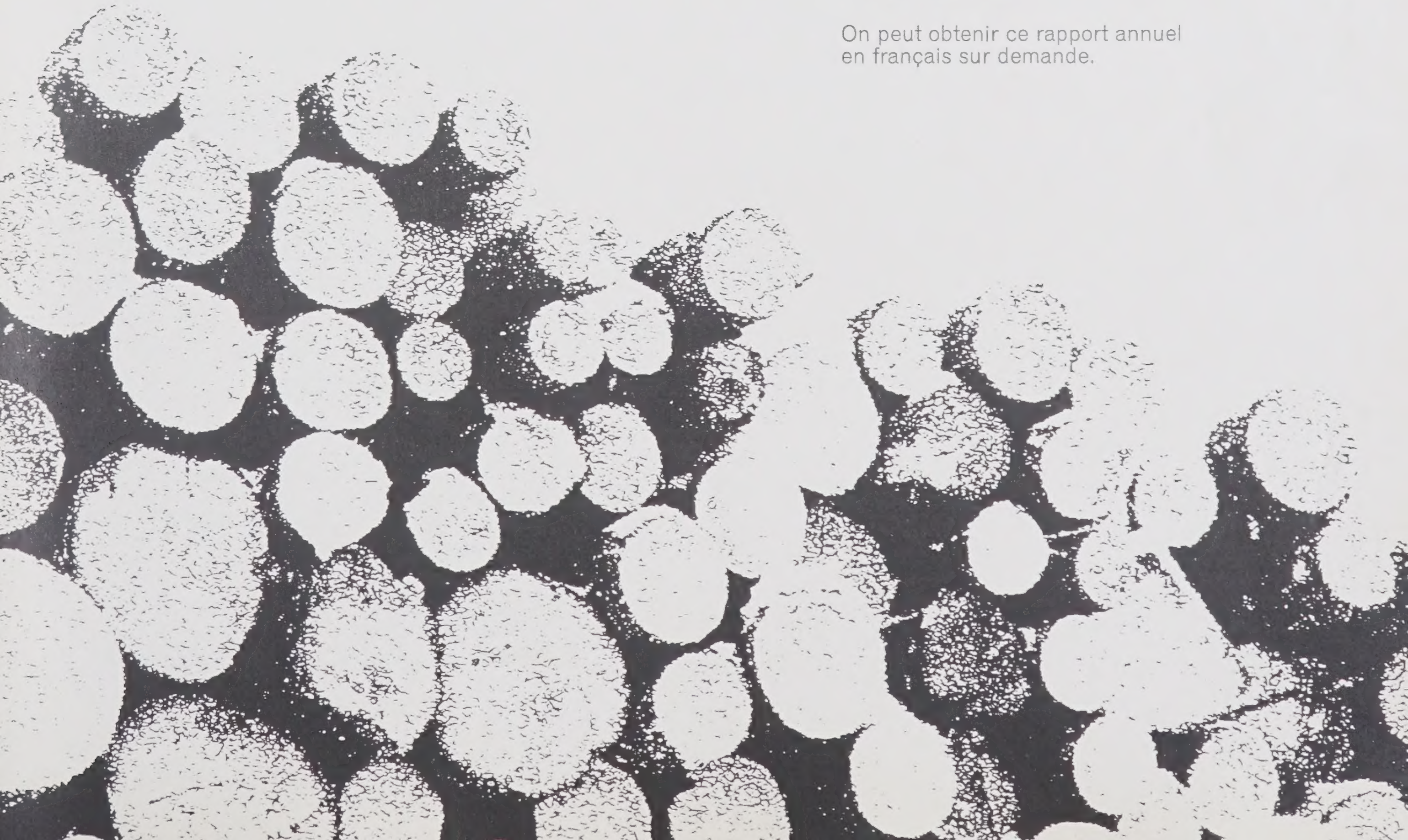
Abitibi Paper Company Ltd.

Head Office: Toronto-Dominion Centre
Toronto 1, Canada

Contents

The Annual Meeting of Shareholders will be held at the Cinema Theatre, Toronto-Dominion Centre, Toronto, Canada, on Thursday, April 17, 1969 at 10:30 a.m. Toronto time.

On peut obtenir ce rapport annuel en français sur demande.



Directors

Douglas W. Ambridge,
Honorary Chairman,
Abitibi Paper Company Ltd.,
Toronto, Canada

Thomas J. Bell,
President and Chief Executive Officer,
Abitibi Paper Company Ltd.,
Toronto, Canada

Bertram D. Coleman,
Chairman of the Executive Committee,
Drexel Harriman Ripley Incorporated,
New York, U.S.A.

James M. Cox, Jr.,
Chairman of the Board,
Cox Enterprises Inc., Dayton, Ohio, U.S.A.

C. Antoine Geoffrion, Q.C.,
Geoffrion & Prud'homme, Montreal, Canada

Allan Graydon, Q.C.,
Blake, Cassels & Graydon, Toronto, Canada

Charles L. Gundy,
Chairman, Wood Gundy Securities Limited,
Toronto, Canada

Leonard G. Lumbers,
President, Noranda Manufacturing Ltd.,
Toronto, Canada

T. Rodgie McLagan,
Chairman of the Board,
Canada Steamship Lines Limited,
Montreal, Canada

General Lauris Norstad,
Chairman of the Board,
Owens-Corning Fiberglas Corporation,
Toledo, Ohio, U.S.A.

Theodore O. Peterson,
Chairman of the Board,
The Investors Group, Winnipeg, Canada

Robert H. Reid,
President and Managing Director,
London Life Insurance Company,
London, Canada

Paul E. Roberts,
Chairman of the Board,
Abitibi Paper Company Ltd.,
Toronto, Canada

C. Harry Rosier,
Executive Vice-President—Corporate Affairs
Abitibi Paper Company Ltd.,
Toronto, Canada

The Rt. Hon. Lord Thomson of Fleet,
Publisher, London, England

John A. Tory, Q.C.,
Tory, Tory, DesLauriers & Binnington,
Toronto, Canada

Honorary Directors:
Harry J. Carmichael, Joseph P. Ripley

Officers

Thomas J. Bell,
President and Chief Executive Officer

Paul E. Roberts,
Chairman of the Board

C. Harry Rosier,
Executive Vice-President—Corporate Affairs

George M. Brain,
Senior Vice-President—Fine Papers Group

Robert E. E. Costello,
Senior Vice-President—Operations

J. Elliot Cottrelle,
Senior Vice-President—Sales
(Newsprint and Pulp)

Robert C. Gimlin,
Senior Vice-President—
Board Products Group

W. Stanley Rothwell, F.C.A.,
Senior Vice-President—Finance

E. Edward Grainger,
Vice-President—Woodlands

John E. Haire,
Vice-President—Corporate Development

T. Newman McLenaghen,
Vice-President—Manufacturing
(Newsprint and Pulp)

James B. Papoe,
Vice-President—Research and Engineering

James Flintoft, Q.C.,
Secretary

Roy Curtis, C.A.,
Comptroller

William H. S. Pote,
Treasurer

Michael D. Thompson,
Assistant Secretary

J. Alexander Patterson,
Assistant Treasurer

Management Committee

T. J. Bell/H. P. Armstrong/T. H. Birchall/G. M. Brain/R. E. E. Costello/J. E. Cottrelle/R. Curtis/J. Flintoft/R. C. Gimlin/E. E. Grainger/J. E. Haire/R. G. McHugh/T. N. McLenaghen/H. G. O'Leary/J. B. Papoe/C. H. Rosier/W. S. Rothwell

Transfer Agents and Registrars

Montreal Trust Company,
Toronto, Montreal, Vancouver, Halifax,
Winnipeg and Calgary, Canada

First National City Bank,
New York, U.S.A. (Transfer Agent)

Bankers Trust Company,
New York, U.S.A. (Registrar)

Auditors

Price Waterhouse & Co., Toronto, Canada

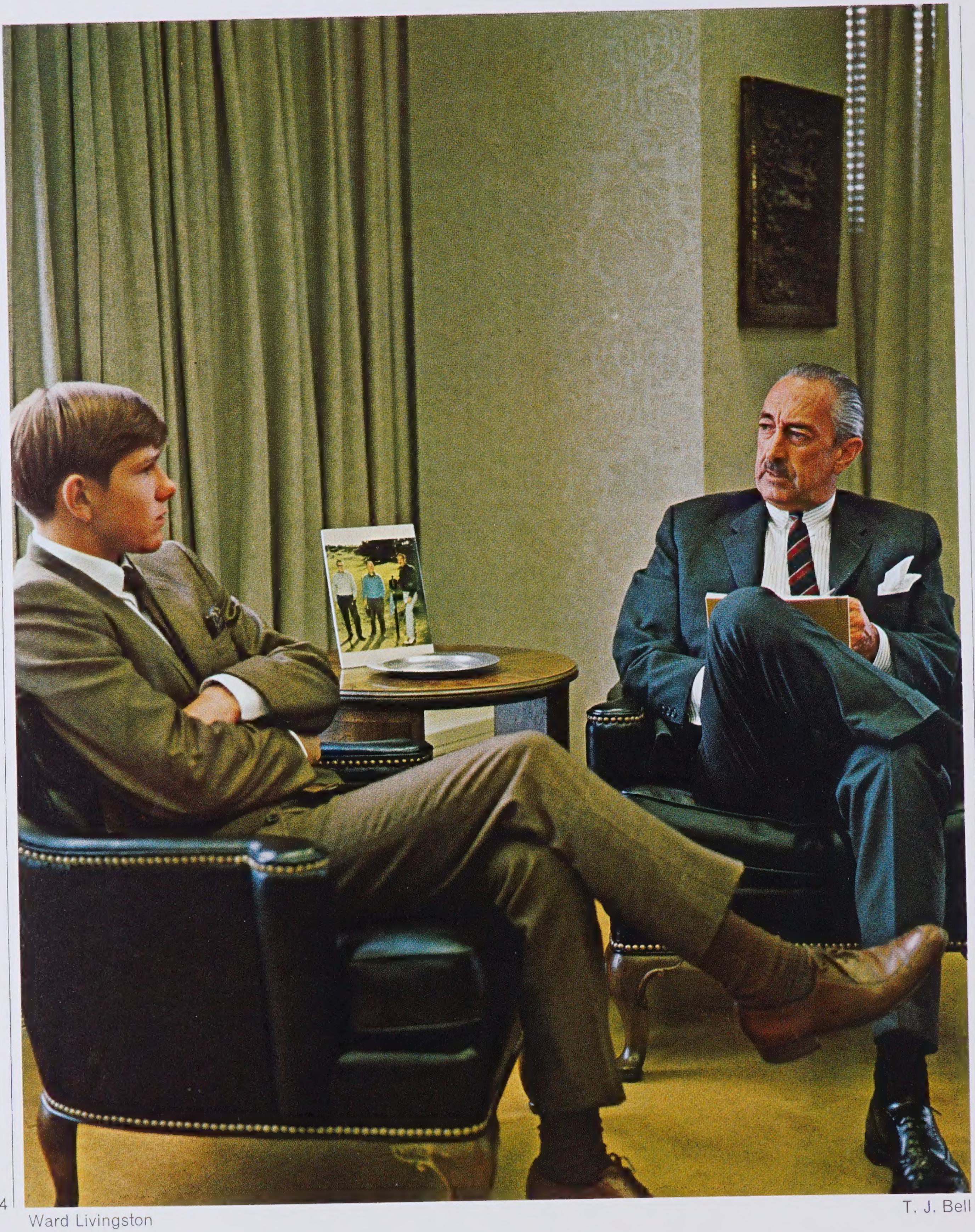
Comparative Summary

Abitibi Paper Company Ltd. and subsidiary companies

	1968	1967
Net sales	$255,587,974	$209,303,274
Depreciation and depletion	$ 15,078,182	$ 12,283,654
Taxes on income	$ 11,490,000	$ 12,457,000
Extraordinary income — net	$ 411,261	$ —
Net earnings	$ 11,028,197	$ 12,452,440
Per common share	$ .60	$ .71½
Dividends declared on preferred shares	$ 323,116	$ —
Dividends declared on common shares	$ 8,157,478	$ 9,747,016
Per common share	$ .46	$ .56
Businesses acquired, net of working capital	$ 33,764,111	$ 928,484
Invested in capital assets	$ 16,203,829	$ 17,218,238
Working capital	$ 61,685,073	$ 57,411,679
Long term debt, net of current portion	$105,704,473	$ 59,674,932
Shareholders' equity — preferred shares	$ 10,062,500	$ —
Shareholders' equity — common shares	$179,661,194	$173,274,216
Number of shareholders — common	37,412	35,379

DIVIDENDS PAID IN 1968

Per common share:	
Jan. 1st	$ .14
Apr. 1st	.14
July 1st	.14
Oct. 1st	.09
	$ .51
Per preferred share:	
Sept. 1st	$ .68
Dec. 1st	.94
	$1.62



Ward Livingston
T. J. Bell

The pulp and paper industry ended 1968 with improving markets but the year as a whole was difficult and disappointing. While Abitibi achieved higher sales,. earnings were down because of lower operating rates, competitive market conditions for some products and labour difficulties that temporarily closed five plants. Net earnings of $11,028,197 from all sources show a decrease of 11.4% in comparison with 1967. Earnings per common share, after providing for dividends on preferred shares issued in 1968, were 60¢ compared with 71½¢ in 1967.

In view of the decline in earnings and other pressures on cash resources, your Directors reduced the quarterly dividend on common shares from 14¢ to 9¢ effective with the dividend paid October 1, 1968. Operating results by quarters showed considerable variance as follows:

	1968	1967
First quarter	$ 2,453,505	3,113,731
Second quarter	3,405,068	3,823,716
Third quarter	1,300,064	3,011,462
Fourth quarter	3,458,299	2,503,531
Extraordinary income — net	411,261	—
	$11,028,197	12,452,440

Two important forward steps taken during 1968 were the purchase of the Hilroy companies in Canada and the Cox Newsprint companies in the United States. Both are well managed and successful enterprises that complement Abitibi's other operations.

A shareholder looks at the company—from the top. Ward Livingston exchanges views and college experiences with T. J. Bell, President and Chief Executive Officer, and tells of his summer employment in Abitibi's Woodlands Division at Sault Ste. Marie. Discussing the opportunities in business today, the President told Ward: "Industry needs young people more concerned with acquiring recognized degrees of learning than in rebelling for causes not too clearly defined . . . we like to have enthusiastic young people with progressive ideas in our company."

Net sales of $255,588,000 show a substantial gain over 1967 due chiefly to the inclusion of sales of newly-acquired subsidiaries. The distribution of sales by principal product groups compares with the prior year as follows:

	1968	1967
Newsprint, pulp and groundwood specialty papers	$132,747,000	112,902,000
Fine papers including merchant and converting operations	66,451,000	44,799,000
Building materials and corrugated containers	56,390,000	51,602,000
	$255,588,000	209,303,000

Sales of newsprint, pulp and groundwood specialties, apart from sales by Cox Newsprint, show a small increase as a group due principally to improvement in the final quarter of the year. Sales of fine papers by Abitibi Provincial were lower because of strikes. Growth in the fine paper group is accounted for by the inclusion of sales of recently-acquired subsidiaries.

The accompanying Consolidated Balance Sheet shows total assets of $360,530,000 in comparison with $286,623,000 at the close of 1967, a very substantial increase. Assets of companies acquired during the year are included at acquisition cost. Long-term debt stands at $109,656,000 compared with $61,387,000 reflecting

obligations incurred in the acquisition program and previously existing debt of acquired companies. To provide cash for investment in U.S. subsidiaries and to augment working capital in Canada, we issued $10,000,000 7½% Cumulative Redeemable Preferred Shares in June 1968.

Newsprint strength in fourth quarter

World consumption of newsprint in 1968 showed an encouraging increase of close to 4%. Production by the Canadian industry, however, was at a relative standstill because increased consumption was supplied by the growing industry outside of Canada, most notably that of the southern United States. The operating rate of the Canadian newsprint industry was 94.8% in 1966, 86.6% in 1967 and 83.2% in 1968. In 1969 the Canadian industry expects to reestablish a growth trend with an operating rate projected at 86%.

Abitibi newsprint sales from Canadian mills increased only slightly in comparison with 1967. This lack of growth was due to market conditions in the first nine months, coupled with strikes in Abitibi mills and publishing plants of customers. The final quarter showed exceptional strength in orders resulting from increased consumption and a desire by customers to improve inventory positions. Strength in demand is continuing in the early part of 1969.

A price increase of $5 per ton, necessary to cover rising costs, was introduced in most market areas of the world on January 1, 1969.

For 1969, Abitibi anticipates increased volume in its Canadian mills and profitability, which has suffered in recent years, should show improvement.

Abitibi now in the southern states

The acquisition of Cox Newsprint, Inc. and Clarendon Paper Sales Company in March 1968 established Abitibi in the important southern segment of the U.S. market. Resulting increased flexibility in production and shipments gives Abitibi greater opportunity to service customer requirements in all areas of the U.S. where Abitibi newsprint is marketed.

The Cox newsprint mill at Augusta, Georgia, is a new plant with a modern high-speed newsprint machine and facilities to accommodate a second machine when justified by market conditions. Cox Woodlands Company is the owner of

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(Top left) *Ward Livingston is told about Abitibi's methods of financial reporting and communicating with more than 37,000 shareholders—by W. S. Rothwell, Senior Vice President—Finance, R. Curtis, Comptroller and* (seated) *J. Flintoft, Secretary,* (Centre) *H. P. Armstrong, Personnel Director, finds Ward enthusiastic about the Abitibi Council on Education, which encourages the children of Abitibi employees to stay in school and to pursue formal education to their maximum capabilities.*
(Top right) *Research developed this Abitibi embossed woodgrain hardboard which Ward examines at the Research Centre, Sheridan Park, Ontario. Explaining the role of research in panel product development are J. B. Papoe, Vice President—Research and Engineering and Dr. R. Dorland, Director of Technical Development.*
(Lower) *Policies that have resulted in the establishment of mills and plants in seven U.S. states and in six Canadian provinces are outlined by C. H. Rosier, Executive Vice President—Corporate Affairs and J. E. Haire, Vice President—Corporate Development.*

approximately 95,000 acres of land in Georgia and South Carolina.

Purchase of the Cox companies was made by Abitibi Holdings, Inc., a new subsidiary company incorporated in Delaware. Abitibi Holdings, Inc. has made a contribution to consolidated net earnings of the parent company since its incorporation early in 1968. This contribution is expected to grow.

Pulp markets

The substantial excess of kraft pulp capacity had a depressing effect on production rates and market conditions during all of 1968. Demand improved somewhat as the year advanced and there is some prospect of better prices in 1969. However, the major problem of a world-wide surplus in capacity has not been resolved and market prices will reflect this situation for the next few years.

Production by Abitibi increased over 1967 as mill efficiency improved, although operations showed a loss because of depressed prices. Consumption by our fine paper mills was again an important factor in our volume.

Recent completion of a new woodroom and other improvements will reduce costs in 1969 and we expect an increase in internal consumption. The outlook for 1969 is for continuing but reduced losses.

A shareholder looks at one of the most spectacular sights of our industry—a high speed newsprint paper machine—this one at Cox Newsprint Inc., Augusta, Georgia. The Cox mill at Augusta, one of the most modern in the world, is designed and built to accommodate a second newsprint machine when market growth warrants expansion.

Strikes affect fine papers

Several factors combined to make 1968 an unsatisfactory year for Abitibi Provincial Paper Ltd. Market conditions for fine papers in Canada were less buoyant than anticipated as an aftermath of the centennial year and costs of production were higher. The Thorold mill was closed for eleven weeks by a strike and the Port Arthur mill was down for a short period. Production was off more than 6% because of strikes and the slow recovery of market position that follows a production stoppage.

Development and introduction of new fine paper grades is continuing through the teamwork of marketing, research and manufacturing personnel. Selective price changes, made necessary by rising costs, have been introduced in a manner that encourages larger order quantities and longer runs on paper machines. Manufacturing efficiencies are being improved in a number of ways. For 1969 we anticipate recovery of market position, record volume and an improvement in earnings.

The addition of Hilroy Envelopes & Stationery Limited and subsidiaries to the Abitibi group of companies in early 1968 was a significant event. The Hilroy group of companies is one of the largest converters of fine papers in Canada. It produces a broad line of envelopes, stationery and supplies for home, school and office. Results of operations since January 31, 1968, the effective date of acquisition, are included in Abitibi's consolidated financial statements.

Inter City Papers Limited had satisfactory operations in its first full year under Abitibi ownership. Service to its customers has been expanded by the addition of carbonless paper and the establishment of "Citipak", the new division set up to distribute heat-shrink film for use in packaging. Results of operations for all of 1968 are included in Abitibi's consolidated financial statements.

Expansion in U.S. building materials

Sales and earnings of Abitibi Corporation, with three building material plants in the United States, were the highest on record. The large Alpena hardboard plant operated at capacity throughout the year. Market acceptance of both new and established products from the Chicago and Cucamonga converting plants resulted in increased volume and improved operations. Abitibi Corporation is well established in the United States with customers from coast to coast.

Expansion of the Alpena plant, to increase capacity by 30%, will be completed in the first half of 1969. Development of the 31,000 acre holding of forest lands, acquired in 1967 to support this expansion, is proceeding with construction of access roads and initial production of pulpwood in accordance with long-term forest management plans.

A new plant, to be completed in 1970, is under construction at Roaring River, North Carolina, with an initial capacity of 100 million square feet. While this new plant is designed particularly for the volume production of exterior siding, it will also provide flexibility for the manufacture of alternate hardboard products. Arrangements have been made for a long-term borrowing of up to $10,000,000 U.S. to be drawn down as construction progresses.

Heretofore, the Corporation's major marketing direction has been in interior panelling and industrial products. The principal product of the new North Carolina plant will be factory-primed and prefinished exterior siding to increase our participation in new construction.

Our investment in Middlebury Mouldings Inc. of Middlebury, Indiana, a manufacturer of prefinished wood mouldings, has proven successful. It has enabled us to serve our expanding wholesaler network with an important accessory item to our panelling line. In order to further broaden our marketing base, we recently invested in Tiffin

(Top left) *Abitibi newsprint distribution in the central markets of the United States is explained by J. E. Cottrelle, President of Abitibi Paper Sales Ltd. and* (seated) *R. G. McHugh, President of Abitibi Papers Inc., Dayton, Ohio.*
(Centre left) *"A good sheet" says T. C. Bannister, Executive Vice President of Cox Newsprint Inc. describing the newsprint wound into an eight foot reel that weighs about 40,000 pounds.*
(Lower left) *Ward examines the big "C" on the Cox Newsprint header and L. E. Mansfield Jr., President of Clarendon Paper Sales Company, tells him that it is an established trade mark with U.S. newspaper publishers.*
(Right) *In Ward's home town of Sault Ste. Marie he is the mill guest of Abitibi's manager T. J. Zager. As railway box cars are loaded for shipment, he learns about the careful handling of newsprint, roto news and groundwood specialty papers.*
(Left) *T. N. McLenaghen, Vice President—Manufacturing (Newsprint and Pulp) and R. E. E. Costello, Senior Vice President—Operations.*


Hilroy
SCHOOL SUPPLIES

Enterprise Inc., an established industrial fabricator in Tiffin, Ohio. This new association will permit us to share more extensively in the profitable furniture and commercial markets.

The outlook for Abitibi Corporation is most favourable.

Building materials in Canada

Volume in hardboard and hardwood plywood products increased over last year although cost increases and competitive market conditions were responsible for a difficult profit year. New products, reorganization steps and some improvement in market environment are expected to to contribute to improved operations in the coming year.

The decision was made several months ago to discontinue the manufacture of particle board at Sturgeon Falls due to continuing losses. The phasing-out process was concluded at the close of January 1969. This operation, the first large plant of its kind in Canada, had become obsolete and unprofitable due to changing process technology. The long-term outlook did not justify the additional investment of funds necessary to continue in operation.

Production and sale of corrugated containers by Abitibi Containers Ltd., with plants at Pembroke and Toronto, again showed growth. A price increase toward the end of 1968 and the upward trend in sales point to further improvement in 1969.

The 30% expansion of corrugating medium capacity at Sturgeon Falls has now been completed and increased volume is anticipated in 1969.

Greater mechanization of logging operations

Woodlands operations in Canada proceeded normally throughout the year. Losses from forest fires were negligible. Forest areas in Canada on which we hold cutting rights comprise some 26,000 square miles. Studies are being made of the potential of each area in relation to future requirements.

The trend to greater mechanization of logging operations continued in 1968. Capital expenditures on logging equipment were again quite substantial and must be maintained or increased in the years ahead. Units of the Arbomatik full-tree harvesting system, developed by Logging Research Associates in which Abitibi is a partner, are following a scheduled program of field testing and modification to attain maximum performance. Abitibi is

(Left) *The important characteristics of Kromekote*, smooth finish and high gloss, are explained to Ward Livingston by G. M. Brain, Senior Vice President—Fine Papers Group and* (centre) *G. A. Lockwood, Manager at the Georgetown, Ontario Coating Mill of Abitibi Provincial Paper Ltd.*
(Top right) *Ward meets the man behind the name known to every Canadian student—Hilroy. Chairman of the Board, R. C. Hill, describes the famous Hilroy line of school supply products as J. E. Patterson, President, looks on.*
(Centre right) *At the Sturgeon Falls, Ontario, Corrugating Medium Mill, the continuous digester is controlled by this elaborate console. Mill Manager, B. C. Barrington, describes the operation. Commenting is J. E. McGibbon, Vice President, Abitibi Panel Products Ltd.*
(Lower right) *Abitibi Containers Ltd. designs and produces multi-colored corrugated containers. S. F. Rook, Vice President and General Manager of this subsidiary, points out a production highlight of a container at the company's Rexdale, Ontario, plant.*

independently sponsoring initial development of a new design of tree harvester with financial assistance granted under a federal government plan.

Product emphasis in research

New products for greater customer satisfaction and improved processes for cost reduction continue to occupy the attention of our Sheridan Park research personnel. This encompasses all phases from basic research studies through to the development of prototype production at operating divisions. Strong emphasis on newsprint, fine papers and panelboards continued as in prior years with particular emphasis on corrugating medium processes because of the expansion program at Sturgeon Falls.

Through research and technical service, Abitibi has gained considerable newsprint volume with publishers that use the web offset printing process for newspaper publication. Our interest in the improvement of newsprint for use in this process is a continuing one. Research studies into the nature and characteristics of coating materials have assisted materially in the development of improved grades of coated papers that are receiving excellent acceptance in fine paper markets. (The text of this annual report is printed on "Royalcoat", one of our improved lines of coated papers.) In panelboards, the chief emphasis was on embossed hardboards and exterior siding. New lines of embossed hardboard panels are now on the market in Canada and our exterior siding is being sold in increasing volume in the United States.

In addition to the development of new products and processes, we are engaged constantly in research studies aimed at increased utilization of our wood resources.

Industrial relations

Most of the company's collective agreements expired during 1968 and were renegotiated. There were over twenty separate series of negotiations, each involving many meetings before settlements were reached. A number of unions negotiated on a joint basis, others individually and in one instance we participated in joint negotiations with four other companies in the industry.

Wage and fringe benefits requested of us were unusually large and quite unrelated to business conditions or productivity gains. Negotiations were difficult and protracted with strikes at five mill locations. Most new agreements are for two-year terms, although two key contracts are for three years.

Mineral rights

Abitibi owns mineral and surface rights on 216 square miles of forest lands north of Timmins and 800 square miles northwest of the Lakehead.

The mineral potential on lands north of Timmins has been of

A dramatic moment in the production of Abitibi woodgrain hardboard at Alpena, Michigan. H. W. Evans, Mill Manager, describes the cycle as hardboard panels are formed in the hydraulic press. W. C. Heirtzler, Vice President—Production, Abitibi Corporation (left) *added that the press capacity had recently been increased by 10%.*



particular interest in recent years because of the proximity of our holdings to the important Texas Gulf discovery. Our holdings have undergone extensive geophysical exploration and selective diamond drilling and, while conditions are difficult because of the heavy clay overburden, exploration is continuing under an agreement with qualified mining interests.

As of this date, we have no knowledge of any discoveries of commercial value on Abitibi lands.

Taxes have unfavourable impact

Income tax amendments introduced in 1968 had and will have an unfavourable impact on our earnings and working capital. In Canada, the surtax results in a tax rate higher than 53% of corporate taxable income and, in the United States, the surtax raises the federal rate to almost 53%. The income tax burden on Abitibi in 1968 was increased by $450,000 due to these federal government surtaxes. During the past year the Canadian government has twice introduced amendments to accelerate corporate income tax instalments. The impact on Abitibi's working capital will be a reduction of more than $2,000,000 over a three-year period. For Ontario companies, there has also been a major acceleration in the payment of stumpage dues. These moves undoubtedly improve government liquidity but, unfortunately, they result in a reduction in funds available to business for payment of dividends and reinvestment for growth.

Included in the statement of Consolidated Net Earnings is extraordinary income in the net amount of $411,261. This is made up of the gain of $2,323,604 on the sale of former head office real estate from which is deducted $1,912,343 covering termination of particle board manufacture, other non-recurring costs in Canadian building materials operations and expenses of the preferred share issue.

At the 1968 Annual Meeting, shareholders approved an increase in authorized preferred shares to a total of one million shares of the par value of $50 each.

There were 450,000 common shares, valued at $3,901,875, issued during 1968 as part consideration for shares of Hilroy and the Cox companies acquired during the year. There are 17,855,384 common shares now outstanding.

Three new directors elected

A by-law increasing the number of directors from thirteen to sixteen received shareholder

(Top left) *This expansion at the Alpena Michigan plant of Abitibi Corporation is now completed and a second, smooth two-side hardboard press line is in production. The 4′ x 8′ and 5′ x 8′ hardboard panels have many end uses, among them, top quality woodgrain panels, furniture, radio and television cabinets and many others.* (Top right) *After intensive market tests, this sample board may become a future panel in the Abitibi product line. At Birmingham, Michigan, Ward meets C. F. Buckland, Vice President and General Manager of Abitibi Corporation and* (left) *B. W. Evans, the corporation's Vice President—Marketing.* (Lower) *The architect's drawing of the Abitibi Carolina Corporation plant at Roaring River, North Carolina, is shown by R. C. Gimlin, Senior Vice President, Board Products Group* (left) *and O. B. Eustis, Vice President—Development and Planning, Abitibi Corporation. This latest expansion in the United States market will provide employment for 300 people and increase Abitibi hardboard capacity by 100 million square feet annually.*

approval at the 1968 Annual Meeting. Additions to the Board of Directors in 1968 are James M. Cox, Jr., Chairman of the Board, Cox Enterprises Inc.; General Lauris Norstad, Chairman of the Board, Owens-Corning Fiberglas Corporation and C. H. Rosier, Executive Vice-President of our company.

Outlook

The pulp and paper industry has suffered in the past from cyclical problems and we feel that 1968 was the bottom of the current cycle.

During 1968 our plants produced efficiently and great emphasis was placed on marketing. While net earnings were exceedingly disappointing, there has been progress in overcoming problems, in planning for the future and in repositioning Abitibi to service pulp and paper markets more effectively and profitably.

The outlook for our company in 1969 is for improvement in both sales and earnings. The future will reflect the results of the progressive accomplishments during the past year. The Cox Newsprint and Clarendon Paper Sales acquisitions will contribute to earnings directly and will assist our Canadian mills with increasing amounts of support tonnage. The impact of the Hilroy and Inter City Papers acquisitions on fine paper earnings will be beneficial. Improvement will be realized also from the expansion of the corrugating medium plant at Sturgeon Falls and the decision to close down the particle board plant. Abitibi Corporation's earnings will improve from the 30% expansion in Alpena capacity along with its broader marketing base. The year 1969 should be free from labour interruptions in our industry which will allow us to take advantage of the generally favourable economic trends in both the United States and Canada.

On behalf of the Directors, I would like all Abitibi employees to know that their interest and efforts to further the progress of the company are recognized and appreciated.

On behalf of the Board,

T. J. Bell

President and Chief Executive Officer

Toronto, February 11, 1969.

Automation in forest harvesting is a key to lowering raw material production costs. E. E. Grainger, Vice President—Woodlands and D. P. Cowan, Woods Manager at Iroquois Falls, Ontario, show how the Arbomatik Log-all cuts trees with a hydraulic powered shear and skids them to a roadside site. An Arbomatik Processor at the roadside removes the branches and bark and cuts the trees into eight foot logs.

Auditors' Report

To the shareholders of ABITIBI PAPER COMPANY LTD.:

We have examined the consolidated balance sheet of Abitibi Paper Company Ltd. and subsidiary companies as at December 31, 1968 and the consolidated statements of net earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of operations and source and application of funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.
Chartered Accountants.

Toronto, February 7, 1969

Consolidated Net Earnings

Abitibi Paper Company Ltd. and subsidiary companies

	Year ended December 31, 1968	*Year ended December 31, 1967*
Revenue:		
Net sales	$255,587,974	$209,303,274
Interest and other income	1,695,622	1,337,376
	257,283,596	210,640,650
Costs and expenses:		
Cost of products sold	193,155,725	154,978,318
Depreciation and depletion	15,078,182	12,283,654
Selling, general and research expenses	18,371,833	12,886,207
Employees' pension plans (note 3)	2,856,260	2,729,321
Interest and expense on long term debt	5,714,660	2,853,710
	235,176,660	185,731,210
Earnings before taxes on income	22,106,936	24,909,440
Taxes on income:		
Current	10,332,000	8,144,000
Deferred (note 4)	1,158,000	4,313,000
	11,490,000	12,457,000
Net earnings from operations	10,616,936	12,452,440
Extraordinary income — net (note 5)	411,261	—
Net earnings	$ 11,028,197	$ 12,452,440
Per common share	$ .60	$ .71½

Consolidated Retained Earnings

	Year ended December 31, 1968	*Year ended December 31, 1967*
Retained earnings at beginning of year	$128,325,909	$125,620,485
Net earnings for the year	11,028,197	12,452,440
	139,354,106	138,072,925
Dividends declared on preferred shares	323,116	—
Dividends declared on common shares	8,157,478	9,747,016
	8,480,594	9,747,016
Retained earnings at end of year	$130,873,512	$128,325,909

Consolidated Balance Sheet

Assets

	December 31, 1968	December 31, 1967
Current Assets:		
Cash	$ 3,954,129	$ 5,162,846
Short term investments at cost which approximates market	2,931,906	—
Accounts receivable, less allowance for doubtful accounts	43,247,684	35,163,436
Inventories:		
Finished products, goods in process, materials and supplies at the lower of cost or market	26,488,820	22,015,690
Pulpwood and expenditures on current logging operations at cost	20,104,039	19,695,680
Prepaid insurance and other expenses	1,251,650	1,209,218
	97,978,228	83,246,870
Capital Assets:		
Properties, plant and equipment (note 7)	404,331,627	358,274,117
Less — Accumulated depreciation	207,084,541	188,489,310
	197,247,086	169,784,807
Logging equipment and development at depreciated cost	5,460,222	5,236,901
Woodlands, both freehold and leasehold, and water power rights, less accumulated depletion of $6,255,316 (1967 — $5,419,846)	27,954,717	17,519,057
	230,662,025	192,540,765
Investments and Other Assets:		
Bonds, debentures and notes	5,111,773	5,344,226
Townsite mortgages and advances	1,617,745	1,712,170
Other investments at cost	2,064,234	2,482,448
Special refundable tax, less current portion	170,832	614,416
Unamortized discount and expense on long term debt	1,031,316	682,444
Cost of shares of subsidiary companies in excess of book values of underlying net assets (note 2)	21,894,313	—
	31,890,213	10,835,704
	$360,530,466	$286,623,339

Approved on behalf of the Board:

T. J. Bell, DIRECTOR

P. E. Roberts, DIRECTOR

Liabilities

	December 31, 1968	December 31, 1967
Current Liabilities:		
Bank indebtedness	$ 5,676,811	$ 745,977
Accounts payable	19,898,719	16,115,861
Dividend payable January 1st	1,606,985	2,436,754
Interest accrued on long term debt	1,217,647	888,868
Income and other taxes	3,941,434	3,935,238
Payments due within one year on long term debt	3,951,559	1,712,493
	36,293,155	25,835,191
Deposit on Sale of Real Estate	—	1,650,000
Long Term Debt: (note 9)		
Abitibi Paper Company Ltd.:		
First Mortgage Sinking Fund Bonds		
Series B, 4¼% due July 15, 1974	3,501,500	3,992,500
Series C, 6¼% due November 15, 1977	6,224,000	6,264,000
Sinking Fund Debentures		
Series A, 5¼% due September 15, 1985 ($18,350,000 U.S.)	19,726,250	20,613,125
Series B, 7¼% due September 15, 1987	15,000,000	15,000,000
Abitibi Corporation:		
5⅛% Instalment Notes, due May 1, 1984 ($12,600,000 U.S.)	13,551,300	14,196,600
Miscellaneous notes ($1,000,000 U.S.)	1,072,200	1,073,700
Abitibi Holdings, Inc. and subsidiary companies:		
4% Promissory Note, due March 22, 1973 ($5,000,000 U.S.)	5,427,500	—
6½% Instalment Note, due March 31, 1973 ($5,000,000 U.S.)	5,427,500	—
5½% Instalment Note, due December 1, 1986 ($18,000,000 U.S.)	19,539,000	—
7⅜% Guaranteed Notes, due May 15, 1988 ($17,000,000 U.S.)	18,453,500	—
Miscellaneous notes due 1969 to 1976 ($937,260 U.S.)	1,017,396	—
Other obligations	715,886	247,500
	109,656,032	61,387,425
Less — Amount included with current liabilities (note 8)	3,951,559	1,712,493
	105,704,473	59,674,932
Deferred Taxes on Income (note 4)	28,809,144	26,189,000

Shareholders' Equity

Preferred Shares: (note 10)		
Authorized: 1,000,000 shares par value $50 issuable in series Issued: 200,000 7½% Cumulative Redeemable Preferred Shares, Series A	10,000,000	—
Common Shares: (note 11)		
Authorized: 24,000,000 shares without nominal or par value Issued: 17,855,384 shares (1967 — 17,405,384 shares)	48,850,182	44,948,307
Retained Earnings (note 12)	130,873,512	128,325,909
	189,723,694	173,274,216
	$360,530,466	$286,623,339

Consolidated Statement of Source and Application of Funds

Abitibi Paper Company Ltd. and subsidiary companies

	Year ended December 31, 1968	Year ended December 31, 1967
Source of Funds:		
Net earnings from operations	$ 10,616,936	$ 12,452,440
Non-cash charges deducted in arriving at net earnings:		
Depreciation and depletion	15,078,182	12,283,654
Discount and expense on long term debt	64,321	49,988
Deferred taxes on income	1,158,000	4,313,000
Funds derived from operations	26,917,439	29,099,082
Increase in long term debt	30,504,275	16,073,700
Sale of preferred shares	10,000,000	—
Disposal of capital assets	1,472,604	2,006,522
Decrease in miscellaneous investments	279,326	—
	69,173,644	47,179,304
Application of Funds:		
Funds invested in shares of Hilroy Envelopes & Stationery Limited, Cox Newsprint, Inc. and Cox Woodlands Company net of working capital acquired of $8,655,145	33,764,111	—
Note: These acquisitions also involved the issue of 450,000 common shares of Abitibi Paper Company Ltd. valued at $3,901,875		
Investment in Inter City Papers Limited net of working capital acquired	—	928,484
Invested in capital assets	16,203,829	17,218,238
Retirement of long term debt	5,377,330	2,754,303
Increase in miscellaneous investments	—	4,254,374
Net expenses of preferred share issue	432,300	—
Dividends declared on preferred shares	323,116	—
Dividends declared on common shares	8,157,478	9,747,016
Other items — net	642,086	357,284
	64,900,250	35,259,699
Resulting in an increase in working capital of	4,273,394	11,919,605
Working capital at beginning of year	57,411,679	45,492,074
Working Capital at End of Year	$ 61,685,073	$ 57,411,679

Notes to Consolidated Financial Statements

1. Balances and transactions in other currencies have been restated in Canadian dollars as follows:

Current assets and current liabilities at exchange rates in effect at December 31st; capital assets at rates in effect at dates of acquisition; long term debt at rates in effect when debt incurred; net sales and expenses of United States subsidiary companies at average rates for the period except for depreciation provisions which are on the same basis as the related capital assets.

2. The consolidated financial statements include the accounts of Abitibi Paper Company Ltd. and all subsidiary companies. Included in the consolidation are the results of operations of Hilroy Envelopes & Stationery Limited and its subsidiary companies from January 31, 1968, Cox Newsprint, Inc. from March 20, 1968 and Cox Woodlands Company from March 22, 1968, their effective dates of acquisition. The amount of $21,894,313 shown on the consolidated balance sheet represents the difference between the cost of the investment in shares of these companies and the book value of the underlying net assets at dates of acquisition. It is not intended that this difference will be amortized.

3. The amount charged to earnings in respect of employees' pension plans includes past service costs resulting from retroactive improvements of benefits instituted in 1963 and 1968. These costs are being funded over a period not exceeding 20 years. Based on the most recent independent actuarial report, the single-sum liability for unfunded pension benefits is estimated at $3,200,000 at December 31, 1968.

4. It is the companies' general practice to claim maximum depreciation allowances for income tax purposes and such allowances for 1968 are in excess of depreciation provided in the accounts. The resulting reduction of $1,158,000 in income taxes currently payable has been charged against 1968 earnings and included in the total of $28,809,144 set aside on the balance sheet as deferred taxes on income.

5. The details of extraordinary income — net, after income tax reductions of $68,500, are as follows:

Gain on sale of head office real estate	$ 2,323,604
Underwriting commission and other expenses of 1968 preferred share issue	(432,300)
Provision for costs of termination of particle board manufacture and reorganization of Canadian building materials operations	(1,480,043)
	$ 411,261

6. Total remuneration of directors and senior officers in 1968 was $766,991 including remuneration of $304,261 to directors (as directors and as officers).

7. Properties, plant and equipment are stated at cost except for assets of a net depreciated book value of $6,933,227 at December 31, 1968 included at appraised values as at April 30, 1946 as reported by Coverdale & Colpitts, Consulting Engineers.

8. Sinking fund and instalment payment obligations for 1969 on long term debt, including payments based on 1968 earnings, amount to $4,784,875 of which $833,316 has been discharged by prior purchase and redemption of first mortgage bonds.

9. Abitibi Paper Company Ltd. has effectively guaranteed payment of the outstanding long term debt of subsidiary companies amounting to $39,600,000 U.S. at December 31, 1968. Its guarantee of the 7⅜% Guaranteed Notes of Abitibi Holdings, Inc. is secured by the pledge of $17,000,000 U.S. principal amount of 7⅜% Debentures, Series C.

10. By supplementary letters patent dated May 11, 1968, the authorized capital stock of the company was changed by consolidating the 450,000 preferred shares of the par value of $25 each, previously authorized, into 225,000 preferred shares of the par value of $50 each and by creating an additional 775,000 preferred shares of the par value of $50 each.

By supplementary letters patent dated June 6, 1968, 200,000 preferred shares were designated as 7½% Cumulative Redeemable Preferred Shares, Series A. These shares, issued during 1968 for cash, are redeemable at $52 per share from June 1, 1978 to May 30, 1983 and thereafter at $51 per share.

11. A total of 450,000 common shares valued at $3,901,875 were issued during the year as part of the consideration in the acquisition of subsidiary companies. Of the authorized and unissued common shares, 499,100 shares are reserved under the Key Employees' Stock Option Plan. Options granted under this plan are for terms of up to ten years at market value at date of grant and are normally exercisable in instalments upon fulfillment of service conditions. At December 31, 1968 options were outstanding on a total of 452,700 shares at prices ranging from $7.9375 to $10.5625 per share of which options covering 372,700 shares were held by officers of the company.

12. Covenants entered into in connection with the issue of debentures and preferred shares include certain restrictions on the payment of dividends. Under the most restrictive of these provisions, dividends on common shares subsequent to December 31, 1967 may be not more than consolidated net income earned after that date plus $15,000,000.

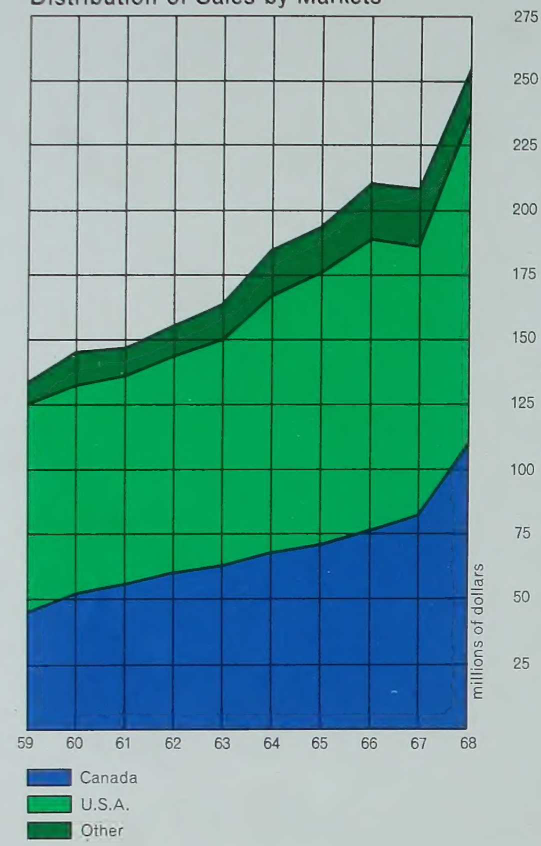
Ten Year Review

Sales and Earnings	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959
Net sales	$255,587,974	$209,303,274	$211,167,324	$194,411,148	$184,708,539	$164,575,637	$156,005,549	$147,587,462	$146,339,604	$133,813,074
Depreciation and depletion	15,078,182	12,283,654	11,599,195	10,486,453	10,141,903	9,853,823	10,369,899	10,289,473	10,463,547	9,680,353
Earnings before taxes on income	22,106,936	24,909,440	31,032,921	32,896,007	35,431,698	31,247,502	31,275,251	28,267,636	26,066,288	24,525,544
Taxes on income	11,490,000	12,457,000	15,105,000	16,160,000	17,498,000	15,040,000	15,780,000	14,557,000	13,800,000	12,700,000
Extraordinary income—net	411,261	—	—	—	—	—	—	—	—	—
Net earnings	11,028,197	12,452,440	15,927,921	16,736,007	17,933,698	16,207,502	15,495,251	13,710,636	12,266,288	11,825,544
Net earnings per common share*	$ .60	$ .71½	$ .91½	$ .96¼	$ 1.01	$ .93	$ .90¼	$ .79½	$ .70¾	$ .68
Dividends Declared										
On preferred shares	$ 323,116	$ —	$ —	$ —	$ 395,221	$ 412,046	$ 433,026	$ 453,504	$ 471,199	$ 507,803
On common shares	8,157,478	9,747,016	9,741,181	9,727,742	9,639,413	8,682,138	8,330,868	7,077,577	7,077,579	7,077,579
Per common share*	$ .46	$ .56	$ .56	$ .56	$ .56	$ .51½	$ .50	$ .42½	$ .42½	$ .42½
Capital Expenditures										
On properties, plant and equipment	$ 14,475,880	$ 13,331,641	$ 20,842,103	$ 30,417,767	$ 19,115,962	$ 15,007,893	$ 13,222,400	$ 9,729,078	$ 10,340,956	$ 7,105,455
On logging equipment and development	1,721,531	2,271,485	3,730,191	1,203,803	770,619	950,320	890,700	594,279	1,666,438	955,345
On woodlands	6,418	1,615,112	—	—	—	—	—	—	—	—
Financial Position										
Current assets	$ 97,978,228	$ 83,246,870	$ 71,155,859	$ 86,886,933	$ 71,377,206	$ 64,029,331	$ 65,886,200	$ 63,107,968	$ 61,091,507	$ 60,070,996
Current liabilities	36,293,155	25,835,191	25,663,785	38,130,274	25,372,566	26,067,715	25,786,818	22,064,539	22,513,567	20,312,046
Working capital	61,685,073	57,411,679	45,492,074	48,756,659	46,004,640	37,961,616	40,099,382	41,043,429	38,577,940	39,758,950
Capital assets, at net book values	230,662,025	192,540,765	187,076,563	174,295,987	153,440,003	143,912,115	132,606,747	128,985,592	129,030,527	126,113,480
Investments and other assets	31,890,213	10,835,704	5,977,690	4,792,965	4,838,412	4,574,257	5,528,727	5,644,395	4,713,044	3,498,462
Deposit on sale of real estate	—	1,650,000	—	—	—	—	—	—	—	—
Long term debt, net of current portion	105,704,473	59,674,932	46,123,035	48,947,638	40,739,347	31,677,969	33,677,500	37,410,000	39,897,500	40,632,000
Deferred taxes on income	28,809,144	26,189,000	21,854,500	14,846,500	6,604,500	1,485,000	—	—	—	—
Equity of shareholders	189,723,694	173,274,216	170,568,792	164,051,473	156,939,208	153,285,019	144,557,356	138,263,416	132,424,011	128,738,892
Equity of Shareholders										
Equity of preferred shareholders	$ 10,062,500	$ —	$ —	$ —	$ —	$ 8,990,450	$ 9,339,300	$ 9,908,425	$ 10,248,575	$ 10,836,425
Equity of common shareholders	179,661,194	173,274,216	170,568,792	164,051,473	156,939,208	144,294,569	135,218,056	128,354,991	122,175,436	117,902,467
Outstanding common shares*	17,855,384	17,405,384	17,405,384	17,373,708	17,364,988	16,971,108	16,666,736	16,652,872	16,652,872	16,652,872
Equity per common share*	$ 10.06	$ 9.95	$ 9.80	$ 9.44	$ 9.04	$ 8.50	$ 8.11	$ 7.71	$ 7.34	$ 7.08

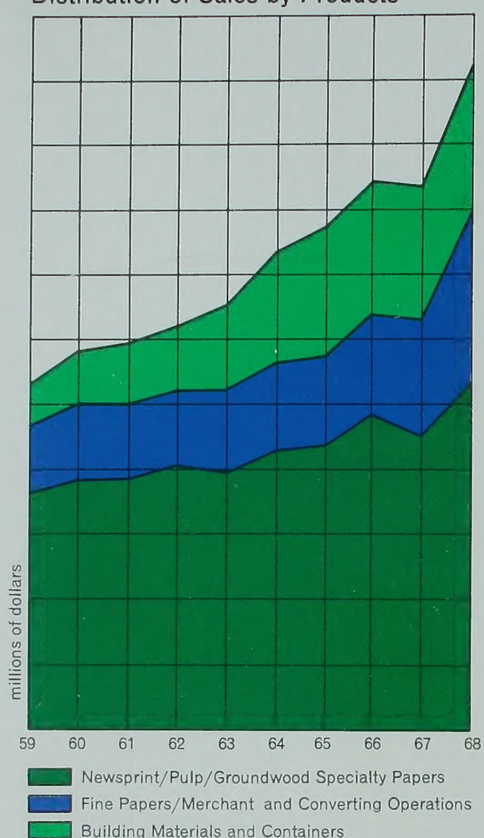
*The number of common shares and per share calculations have been adjusted where applicable to reflect the 4 for 1 stock split on November 30, 1963.

Abitibi Paper Company Ltd. and subsidiary companies

Distribution of Sales by Markets



Distribution of Sales by Products



Primary Production of Paper, Pulp and Board Products in Tons

	Newsprint Paper	Fine and Printing Papers	Building Boards and Paperboards	Market Pulp	Total
1959	735,200	107,900	138,800	44,000	1,025,900
1960	780,000	112,100	144,900	40,700	1,077,700
1961	742,000	117,300	145,800	44,400	1,049,500
1962	756,000	123,900	164,200	36,300	1,080,400
1963	740,600	132,100	177,300	39,900	1,089,900
1964	819,300	132,300	205,100	55,800	1,212,500
1965	829,300	136,700	227,300	46,800	1,240,100
1966	890,800	158,400	206,500	56,100	1,311,800
1967	825,900	164,100	208,400	43,800	1,242,200
1968	925,100	159,500	232,800	72,400	1,389,800

Groundwood specialty papers are grouped in the above table with Fine and Printing Papers.
In addition to these primary products, Abitibi manufactures corrugated containers, veneered panelings, decorative hardboard panels, and fine hardwood veneers.

ABITIBI

Products, Sales Offices and Plants

Newsprint

Sales and Service

Abitibi Paper Sales Ltd.
Toronto and Montreal, Canada
Abitibi Papers Inc.
Dayton, New York and Chicago, U.S.A.
Clarendon Paper Sales Company
Atlanta, U.S.A.

Manufactured at —

Iroquois Falls, Ontario
Fort William, Ontario
Port Arthur, Ontario
Sault Ste. Marie, Ontario
Pine Falls, Manitoba
Beaupré, Quebec
Augusta, Georgia

Groundwood Specialty Papers, Kraft Pulp and Corrugating Medium

Sales and Service

Abitibi Paper Sales Ltd.
Toronto and Montreal, Canada

Manufactured at —

Groundwood Specialty Papers —
Sault Ste. Marie, Ontario
Kraft Pulp —
Smooth Rock Falls, Ontario
Corrugating Medium —
Sturgeon Falls, Ontario

Fine and Printing Papers

Sales and Service

Abitibi Provincial Paper Ltd.
Toronto and Montreal, Canada

Manufactured at —

Thorold, Ontario
Port Arthur, Ontario
Georgetown, Ontario

Envelopes and Stationery; School, Home and Office Supplies

Hilroy Envelopes & Stationery Limited
Toronto, Ontario
The Canadian Stationery Company Limited
Joliette, Quebec
Canada Envelope Company
Montreal, Quebec; Stellarton, N.S.
Toronto Envelope Co. Limited
Toronto, Ontario
Redi-Seal Envelopes Limited
Toronto, Ontario

Paper Merchants

Inter City Papers Limited
Whyte-Hooke Papers,
Toronto, Ontario
T. B. Little & Corbeil,
Montreal, Quebec

Building Materials

Sales and Service

Abitibi Corporation
Detroit, Chicago, Los Angeles, New York, Philadelphia, Cleveland, Atlanta and Dallas, U.S.A.
Abitibi Panel Products Ltd.
Toronto and Montreal, Canada

Manufactured at —

Alpena, Michigan
Chicago, Illinois
Cucamonga, California
Sturgeon Falls, Ontario
Durham, Ontario

Corrugated Containers

Sales and Service

Abitibi Containers Ltd.
Toronto, Pembroke and Montreal, Canada

Manufactured at —

Toronto, Ontario
Pembroke, Ontario

Principal Subsidiary Companies

Abitibi Paper Sales Ltd.
Abitibi Papers Inc.
Clarendon Paper Sales Company
Abitibi Manitoba Paper Ltd.
Abitibi St. Anne Paper Ltd.
Abitibi Holdings, Inc.
Cox Newsprint, Inc.
Cox Woodlands Company
Abitibi Provincial Paper Ltd.
Hilroy Envelopes & Stationery Limited
The Canadian Stationery Company Limited
Canada Envelope Company
Toronto Envelope Co. Limited
Redi-Seal Envelopes Limited
Inter City Papers Limited
Abitibi Corporation
Abitibi Panel Products Ltd.
Abitibi Carolina Corporation
Abitibi Containers Ltd.

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